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DEPARTMENT PASS FOR AMBASSADOR HASLACH, EAP/MTS/COPPOLAMG

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SUBJECT: BRUNEI'S ABAC CONFERENCE: TOUGH ECONOMIC TIMES

#### SUMMARY

1. (SBU) Brunei recently hosted APEC Business Advisory Council (ABAC) meeting. Ambassador Todd attended a number of sessions, in addition to meeting with the U.S. delegates. The meetings resulted in wide ranging recommendations for APEC trade ministers. This included a rare mid-year letter with short term recommendations. In addition, a summit was held on promoting small to medium enterprises (SMEs) during an economic crisis. Governments' role was heavily debated, with some coming down strongly on the side of limited government intervention. The U.S. delegates told Ambassador Todd that Asia remains a critical market for each of their firms. The U.S. delegates reviewed with Ambassador Todd the challenges and opportunities their firms see in Asia. End Summary.

#### RECOMMENDATIONS GALORE

2. (SBU) APEC's Asia Business Advisory Council (ABAC) issued their traditional letters and recommendations to APEC Trade Ministers. Meeting in Brunei during the week of May 12-15, 2009, ABAC delegates debated a number of proposals and recommendations. The conference also resulted in a mid-year letter, an unusual occurrence, with short term recommendations in response to the current economic crisis. The short term recommendations support the Free Trade Area of the Asia Pacific (FTAAP) as well as ensuring countries maintain their commitments to resist enacting trade barriers. Partnering government and business to provide stimulus packages to increase consumption, on a regional and global level versus domestically, was also encouraged. The long term recommendations focused on lower trade barriers and ratifying outstanding trade agreements. Harmonizing trade frameworks, including customs, transportation, and safety was also suggested.

#### PROMOTING SMALL BUSINESS IN TOUGH TIMES

3. (SBU) Ambassador Todd attended ABAC's summit on supporting small to medium size enterprises (SMEs) in turbulent economic times. Business leaders from both Brunei and the APEC region spoke at length on how to encourage SMEs development. However, a number of presenters simply noted their companies' efforts to promote SMEs, most especially Brunei Shell Petroleum (BSP). A more lengthy discussion was held on the role of government in SMEs development. Some presenters were adamant that governments should not play a role in SME promotion both in terms of specific programs or policy development. The successful small business owners noted their frustration with bureaucracy and a changing policy environment. Ambassador Todd and others highlighted the need for governments and business to work together not only on SME promotion but also in reacting to the current financial situation.

#### U.S. FIRMS VALUE ASIAN MARKETS

4. (SBU) Ambassador Todd met with ABAC's U.S. delegates throughout the week. The delegates, representing J.P. Morgan, Proctor and Gamble (P and G), and General Motors (GM) all shared with Ambassador Todd their perspective not only on general economic conditions but their companies' thoughts on the Asian market. All agreed the Asian

market was a key factor in world-wide economic recovery. Given the differing financial conditions of each of the companies, their approach to the Asian markets are vastly different. Some seek more direct investment (GM), while others see opportunity for growth (P&G and J.P. Morgan). All agreed that the likelihood of more restructuring within U.S. firms is high, with larger companies either declaring bankruptcy or making strategic mergers. Some U.S. firms may move to break out Asian operations given their higher profit margins.

AMBASSADOR TODD COMMENT

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15. (SBU) Brunei's ABAC conference reaffirmed the importance that Asia's markets and economies will play in the world economic recovery. There was a real concern regarding a rise in protectionist measures. The continued lack of consumer demand in the U.S., along with the H1N1 virus scare put an additional damper on the proceedings. While the focus on helping SMEs was laudable, there was a lack of understanding of the joint role that the private sector and government can and should play, especially in these turbulent economic times. Many participants did not appear to value or understand the key role SMEs play in the economic stability and growth. J.P Morgan, P and G, and GM represented a broad spectrum of U.S. businesses and their financial health. Asian investment, be it in U.S. firms or regionally, is fundamental to recovery. The mid-year recommendations, while not overtly forward leaning, provide one indication of ABAC members ongoing and significant concerns regarding regional and global economic recovery.

TODD